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INTRODUCTION

Kalamazoo Child Guidance Clinic (KCGC) entered into contracts with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Secondary Prevention program in Kalamazoo, Van Buren, and Cass Counties. The 1998 and 1999 contract numbers were FID 98-39001 for \$116,667 and FID 98-39001 multi-year extension for \$172,600.50, both funded 100% by CFDA #93.558, Temporary Assistance for Needy Families (TANF). Collectively, these contracts covered the period February 1, 1998 through September 30, 1999. These contracts state that KCGC was to be reimbursed for its actual costs incurred in providing the services. Payment was made quarterly in advance by FIA.

SCOPE

The Office of Internal Audit performed an audit of KCGC to determine if they complied with the terms of their contracts with FIA, and if systems, procedures and monitoring operations of KCGC were in compliance with standards, policies and regulations as established by FIA and the Federal guidelines. Our audit included KCGC's sub-contacting policies, monitoring process, equipment purchasing policy, and year-end closeout procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

EXECUTIVE SUMMARY

Based on our audit, we concluded that KCGC was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by FIA and Federal guidelines. The lack of compliance with Federal Office of Management and Budget (OMB) Circular A-133 will result in a significant amount of questioned costs

if KCGC fails to implement appropriate corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow.

KALAMAZOO COUNTY CHILD GUIDANCE CLINIC RESPONSE

KCGC has reviewed all findings and recommendations included in this report. They responded to our draft report by e-mail on June 30, 2000. A summary of their response for each item is included following the finding and recommendation.

FINDINGS AND RECOMMENDATIONS

KCGC Policies and Procedures for Purchase Approval

1. KCGC did not follow their purchase approval policy. Their policy states that the Executive Director must sign all requisitions, indicating approval, prior to payment by the Business Manager. The Business Manager was paying subcontractor expenses without proper expense reports and/or approvals. Total 1998 unapproved expenses were \$39,017.53. As of August 19, 1999 unapproved expenses were \$38,407.91.

WE RECOMMEND that the Field Operations Administration (FOA) ensure that KCGC implements internal controls to ensure that all expenses are properly approved in accordance with their purchase policy.

KCGC Response: KCGC stated that they have formally changed their procedure to have the Comptroller sign the check requisitions.

Purchase of Books

2. KCGC made two payments totaling \$1,694.40 for fiscal year 1998 for services not included in their plan. Both payments were for the purchase of books, and were

billed in the contractual services line item. No contract existed for these purchases. Costs associated with services not in the approved plan are not allowable expenses.

WE RECOMMEND FOA obtain a retroactive service plan from KCGC for 1998, determine what services they will approve, and initiate the process to recoup the overpayments made for services that are not approved.

KCGC Response: KCGC stated that they have submitted a request to obtain retroactive approval to include the books in their service plan.

Improper Subcontract Expenses

3. KCGC spent subcontract funds totaling \$6,428.48 without properly written subcontracts, as follows:

\$3,137.48 was paid to Kalamazoo Regional Educational Service Agency (KRESA), also known as Early On. The subcontract was with Early On, which is a program, not an entity.

\$738.00 was paid to The Caring Network although they didn't have a written subcontract.

\$1,653.00 was paid to Family & Children Services although they did not have a written subcontract.

\$900.00 was paid to employees of Bronson Methodist Hospital, but the subcontract was with the Hospital.

Costs associated with improperly written subcontracts or payments made where no subcontract exists are not allowable expenses.

WE RECOMMEND FOA determine which subcontracts were for items or services included in the approved plan, have KCGC execute properly written subcontracts for those items and services, and initiate the process to recoup funds expended for items or services that were not approved.

KCGC Response: KCGC stated that they consider The Caring Network and Family & Children's Services vendors, and therefore see no need for a subcontract. KCGC also stated that they are taking steps to subcontract with KRESA and the employees of Bronson Methodist Hospital, who provide the service.

Specific Assistance Limit

4. KCGC's subcontract with Van Buren/Cass County District Public Health Department, specifically the Cass County budget, had a line item for specific assistance, with a limit of \$150 per client. We found that the subcontractor spent \$900 on one client, thus exceeding the limit per client by \$750.00. Costs that exceed the subcontract budget per client are not allowable expenses.

WE RECOMMEND FOA initiate the process to recoup the \$750.00 overpayment from KCGC.

KCGC Response: KCGS stated that they interpreted this requirement to mean that the average spent per client should not exceed \$150.

Contract Language for Subrecipients

5. KCGC included the Catalog of Federal Domestic Assistance number (CFDA#) and Federal Financial Participation percentage (FFP%) in only the Van Buren/Cass District Public Health Department's subcontract. All other subcontracts did not include the CFDA# or the FFP%, as required. Federal Office of Management and Budget (OMB) Circular A-133, Subpart D.400 requires recipients to inform their subrecipients of the amount of federal assistance and the CFDA number associated with those funds.

WE RECOMMEND FOA work with KCGC to ensure they comply with Federal requirements for subrecipients.

KCGC Response: KCGC stated that they are currently complying with this requirement for the subcontract that is currently in place, and will be complying with this requirement for the KRESA and Bronson Methodist Hospital employee subcontracts.

Subrecipient Single Audit Reports

6. KCGC did not have a process in place to identify subrecipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified in the subrecipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that KCGC is aware of the requirements for reviewing Single Audit Reports of its subrecipients and implement this requirement.

KCGC Response: KCGC stated that they are aware of this requirement.

Recoupment

7. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass-through agency did not monitor the subrecipient or review their Single Audit Report and take appropriate corrective action. As noted above, KCGC did not meet these oversight requirements for its subrecipients. If proper oversight requirements are not implemented, it will be necessary for FOA to start the process to recoup the entire amount of federal expenditures for these contracts for 1998 and 1999.

WE RECOMMEND that FOA determine if KCGC complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our audit, and initiate the process to recoup all federal funds expended under these contracts for which KCGC has not complied with the monitoring and oversight requirements.

KCGC Response: KCGC does not agree with this finding.